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C O N F I D E N T I A L SECTION 01 OF 03 MANAMA 000835

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STATE ALSO PASS TO OMB, COUNCIL FOR ECONOMIC
- ADVISORS, OFFICE OF SCIENCE AND TECHNOLOGY
- POLICY, AND NATIONAL ECONOMIC COUNCIL
USDOC FOR ITA/MAC/ONE
TREASURY FOR INTL AFFAIRS/G SILLS, TFI/A SZUBIN,
- AND OFAC/R WERNER

E.O. 12958: DECL: 06/11/2015

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SUBJECT: ARCAPITA ENDORSES SECURITY ARRANGEMENTS WITH USG
ON CYPRESS ACQUISITION

REF: A. MANAMA 747

[1](#)B. STATE 85235 (NOTAL)

Classified by Ambassador William T. Monroe for reasons 1.4
(b) and (d).

Summary

[1](#)1. (C) Arcapita Director for Legal Affairs Henry Thompson told the Ambassador June 8 that his company is willing to enter into security arrangements with the USG to gain approval for its proposed acquisition of Atlanta-based Cypress Communications. He said that Arcapita would keep all of Cypress' assets on its own books rather than resell up to 80% of the equity, as is its usual practice. Arcapita would place only American citizens on Cypress' board of directors and would permit authorized USG access to Cypress' equipment. It would agree not to give donations to foreign charities identified by Washington agencies. Arcapita would take action against executives, employees, or Shariah board members if the USG provided specific, verifiable information. The firm's reputation is at stake and it has a strong interest in successfully concluding the Cypress deal. Thompson said, however, that the company was worried it would not get USG approval for the deal because of "vague, unspecified security concerns." He asserted that Arcapita is the "poster boy" for Islamic banking, and a USG decision to deny the acquisition would send a bad signal to the world about the United States as an investment destination. The USG, he said, should seek to promote moderate Muslims by working with companies like Arcapita. End Summary.

Arcapita on CFIUS Process

[1](#)2. (C) Arcapita Executive Director for Legal Affairs and London office General Manager (Amcit) Henry Thompson called on the Ambassador June 8 to provide a briefing on Arcapita's view of the state of play of the Committee on Foreign Investment in the U.S. (CFIUS) process. He described Arcapita as "an Islamic version of Investcorp" that was formed in 1996 and opened its U.S. office in Atlanta in 1997. Arcapita, formerly First Islamic Investment Bank, has more than \$2.5 billion invested in the United States and 40% of the firm's senior executives are American citizens. He said Arcapita is the largest private equity house in Atlanta and the second largest in the southeast U.S.

[1](#)3. (C) Atlanta-based Cypress Communications is an attractive acquisition for Arcapita because of Cypress' product offerings and market position, Thompson said. Arcapita applied to the FCC in November 2004 to transfer Cypress' operating license following the acquisition. The FCC passed the security check to "Team Telecom," composed of the Departments of Homeland Security, Defense, Justice, the NSA, and FBI. Thompson said that this procedure stalled and Arcapita initiated the CFIUS process in an attempt to expedite decision-making. He noted that as a result of USG requests during the Team Telecom process, Arcapita had decided not to resell up to 80% of its equity in Cypress to its investors, as is usually the case, and will keep all of Cypress' assets on its own books. He characterized the Team Telecom process as a "constructive dialogue" and stated that Arcapita had provided a lot of information to the USG.

Reputation on the Line

[1](#)4. (C) Thompson recognized that Arcapita was risking its

reputation in the Cypress deal. If the deal was refused, or Arcapita pulled out on its own, the word would get around Atlanta's financial circles. Conversely, if the deal went ahead, it would be with the explicit approval of the USG. Thompson said that Arcapita was committed to proceeding with the acquisition at the urging of Executive Director and Head of Corporate Investment Charles Ogburn, from the Atlanta office, who strongly believes in the attractiveness of the investment.

15. (C) Thompson noted that Ogburn and CEO Atif Abdulmalik had requested that Minister of Finance Shaikh Ahmed bin Mohammed Al Khalifa, Bahrain Monetary Agency Governor Rasheed Miraj, and Ambassador-designate to the U.S. Nasser Al Balooshi send letters in support of Arcapita to Acting Under Secretary of Treasury Randall Quarles and Deputy Assistant

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Secretary of Treasury Charles Schott. He thought that Miraj

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had done so but had no information on the other two requests. (Note: Although they have had the opportunity to do so, no Bahraini officials have discussed Arcapita with us. End Note.)

Open to Security Arrangements with USG

16. (C) Thompson said that Arcapita would enter into security arrangements with the USG on Cypress. For example, Arcapita had proposed placing only American citizens on Cypress' board of directors and would honor legal requests for USG access to its equipment, such as court-ordered wire taps. It would agree not to give donations to certain foreign charities identified by the USG. He was worried, however, that Washington would ask Arcapita to take action against individuals associated with the firm without providing background information or evidence. He said that Washington agencies had presented hypothetical situations about Arcapita executives, employees, and Shariah board members having "security problems," and asked Arcapita what it would do. He told the Ambassador that what the company would do depended on the type of information provided and the status of the individual. Changing a member of the Shariah board is the least complex thing to do, and he cited the case of Yousef Qaradawi, who had been a member of Arcapita's Shariah board until he became a liability following the 2002 acquisition of Caribou Coffee.

"Poster Boys" for Islamic Banking

17. (C) Thompson stressed that "security is the reality of our age," and understood that the USG had to be wary. "Tell us what the problem is and we'll solve it," he said, but claimed there was "nothing public against our guys." "We are the poster boys for Islamic banking," he continued, saying that if Arcapita could not get USG approval for the Cypress deal because of "vague, unspecified security concerns," it would send a bad message to the world about the U.S. as an investment destination. The USG should be seeking to promote moderate Muslims and the U.S.-Bahrain free trade agreement (FTA) by working with companies like Arcapita, he said. Arcapita wants to do the right thing and have the deal go through, and will do what is necessary to ameliorate the USG's concerns.

Comment

18. (C) Arcapita has a strong interest in working with the CFIUS to develop a negotiated solution that results in the successful conclusion of its acquisition of Cypress. Thompson stressed several times that Arcapita would take steps to address the USG's concerns about its relationship with Cypress and that company's operations. At the same time, however, he signaled that Arcapita would need clear, verifiable information from us before taking action against individuals associated with the firm. As discussed Ref A, Post favors an outcome that, while safeguarding the homeland, promotes the positive benefits we hope to reap from ratification and implementation of the FTA and sends a message to the Islamic world that its investments are welcome in the United States.

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